

*Title:* “How Can Entrepreneurship Education Influences  
Cofounders’ Nepotism and Cronyism Definition?”

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*Author:* Altino Álvares

*Thesis Supervisor:* Prof. Miguel Pina e Cunha

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“If we did all the things we are capable of,  
we would literally astound ourselves.”  
Thomas A. Edison

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To my sweet daughters Mariana and Ana Carolina  
and to my lovely wife Patricia  
for all their support, understanding and love

# How can entrepreneurship education influences cofounders' nepotism and cronyism definition?

## Abstract

This study presents an analysis of how can entrepreneurship education influence nepotism and cronyism in entrepreneurship. The aggregated dimensions of this problem results in extended factors are also observed in this study: the importance of venture capitalist in the entrepreneurship process, the impact of business cycles in the ventures decision making and the extended-household capital. The increase of the knowledge-based economy in Portugal is also influencing the entrepreneurship environment context. All of the previous are observed under the perspective of the impact resulting of the entrepreneurship education in cofounders' nepotism and cronyism definitions.

**Keywords:** nepotism; cronyism; entrepreneurship; entrepreneurship education; agency; stewardship; business cycle; investors; exit plan;

## Introduction

Cofounder's nepotism and cronyism can influence team building on ventures. Nepotism is a common hiring mechanism in family business, usually when companies use their influence to hire family members, although cronyism as being less common. This can miss their influence among co-founders, especially if we consider Distelberg's household definition, where family and friend members are considered.

Driven by the emergence of the knowledge-based economy, Portugal is one of the countries influenced by entrepreneurship trend. Several factors are determinant to influence the entrepreneurs' behavior over the stakeholders.

To address the research question of "How can entrepreneurship education influences cofounders' nepotism and cronyism definition?", this study explores the entrepreneurship ecosystem strategy to change an economy into knowledge-based economy, which requires articulated policies and actions. Entrepreneurship education program can be relevant to create a change on the valuation of the entrepreneurs about the entrepreneurship ecosystem. To address the knowledge-based economy, the European entrepreneurship ecosystem was promoted by the European Commission through incentives to boost entrepreneurship by implementing key European Union (EU) policies (European Council, 2000). Countries that later joined the EU have adopted the recommendations of the European economic-social model (Macrometria, 2014). As a sense making, the Lisbon European council encourages the knowledge creation and deployment aiming Europe to improve the economy and social performance for the ensuing decades, in order to transform the European region in the a competitive worldwide knowledge-based economy (European Council, 2000).

This study considers the EU initiatives, which promote the entrepreneurship ecosystem that involves important stakeholders related with the economy, such as government, schools, universities, education institutions and other (Alípio, 2006; European Council, 2000). Moreover, higher learning institutions are now offering core entrepreneurship programs or elective courses as a major subject (Teixeira, 2012), which can enhance the influence of the entrepreneurship education over the definition about nepotism and cronyism, venture capitalists, and business cycle among the knowledge-based economy stakeholders.

Concerning financial investment, in the context of this study, it can be critical for entrepreneurs in the early stage of the ventures, especially over the human-capital for the propose of the venture. In consequence, the study explores the financial investment from family and friends to venture capitalists. The newest professional funding source for the entrepreneurs are venture capitalists, such as business angels and venture capital. In one hand, venture capitalists are usually expected to create jobs and leverage the economy, and they are usually well positioned to bring capital through their ability to influence with their networking (Zider, 1998). In the other hand, an innovation cycle can be created by the financial investment cycle (Nanda and Rhodes-Kropf, 2013), which can be a key factor to influence the entrepreneurship ecosystem. In this context, companies' managers can face influence on shareholder's assembly configuration, employment policies, suppliers, investment and others stakeholders.

The research also reveals the importance of business cycles over the entrepreneurship education. Flows of financial capital into the market have a positive correlation with the economic phases (Paik and Woo, 2013). The phase of the economic cycle may be relevant to start a company (Svaleryd, 2015). Research shows the key role that entrepreneurs play in the economy, by creating jobs, commercialize innovation, accumulating savings and wealth and drive economy growth (Parker, 2012).

This research was conducted in Portugal during the Southern Europe economic and social crisis that came in consequence of the European crisis in 2009. This crisis influenced the households' capital and the financial sector, which directly influence all the economy, and can heavily shake the structure of the companies. In consequence of the business recession, unemployment rose, financial institutions restricted loans to their customers and social instability rose (Hinton, 2010).

Accordingly, this paper focuses on the clarification of the four main aggregated dimensions identified (Annex 1) on the research that can guide the cofounders' management decisions over nepotism and cronyism context. This study explores an Nepotism/cronyism entrepreneurship model (Annex 2) where nepotism and cronyism definition can be strongly influenced by entrepreneurship education, which persuades the sensitivity about cofounders' nepotism, cronyism, investors relationships, business cycles and household capital.

To achieve the set of goals, this paper is organized in the following way. First, a brief overview over the entrepreneurship education governmental policies, which promoted the entrepreneurship ecosystem to situate the ground of the knowledge-based economy, and then the review of the literature related with the aggregated dimensions. Second, the methodology selected and the criteria used. The research approach uses a qualitative grounded-theory, based on semi-structured expert interviews to understand how entrepreneurship education can influence cofounders' management of the company, considering nepotism and cronyism. Experiences were reported following the expert interviewees,

informants, and perspective into the contexts about cofounders' household-members, which can influence the management of the company. Third, how this paper contributes to the literature about entrepreneurship on knowledge base economy, by developing an Nepotism/cronyism entrepreneurship model (Annex 2) that shows why Entrepreneurial Education is relevant to change the entrepreneurial ecosystem, where the cofounders are the key players. Using the case of entrepreneurship education, the study uncover the influence into nepotism, cronyism by extended-household capital, venture capitalists, and business cycles understanding. Changing those perceptions indicates generalized social exchange relationships between cofounders. In conclusion, the new perspective of how nepotism and cronyism among cofounders can influence the entrepreneurship ecosystem described in this paper opens the opportunity for future research.

## **Literature Review**

The nepotism is a common hiring mechanism policing in family business, usually when companies use their influence to hire family members, although cronyism as being less common (Jones and Stout, 2015). That can miss the influence of nepotism and cronyism between cofounders. To address the research question, this literature review covers the influence of the entrepreneurship education into the definition of the nepotism and cronyism among cofounders. At the beginning of this review, it is important to understand extend-household, nepotism and cronyism concepts. Then, having the entrepreneurship education as a trigger in the research question, this review goes along to explore the motivation of governmental policies for this education revolution and the consequences in the entrepreneurship ecosystem. After, considering the Nepotism/cronyism entrepreneurship model (Annex 2), the review goes to venturing capitalist, business cycles and stewardship/agency analyses, because they can impact on the definition of nepotism and cronyism concepts.

### **The impact of extended-household members' human capital on nepotism and cronyism**

The relationship between family-members and friends is explored in Distelberg's research, which contributes with the definition of family: "All individuals related by blood, marriage, or adoption are typically considered family. But individuals not related through blood, marriage, or adoption but who share goals, resources, and a commitment to the whole may also be considered family" (Distelberg and Sorenson, 2009). For the purpose of this paper, I named as extended-household, the concept of household considering the extension of the family members described by Distelberg. Following this concept, family or non-family-members can function as family-members, which can influence the household capital.

In another perspective, Rodriguez (2009) considers household capital quite close to family capital, and he defines "Just as family capital is a component of social capital, household capital is a further specified part of family capital that may include individuals not related to the family." Complementary research analyzes the correlation of the household characteristics in the formation of a new venture, (Rodriguez et al., 2009). Establishing how household capital can influence the startup creation, Rodriguez findings reveal that the potential of the household financial capital is positively related with its capability of funding a new venture and the household human resources plays a critical role in the

decision to launch a venture. Also, social capital considering extend-household human capital may facilitate entrepreneurship, especially when competencies are organized to launch the venture. The early structure of the startup should support entrepreneurs with specific knowledge, human resource, information, market and networking which can address other resources needed in the venture. Extend-household human capital combined with management competencies, the potential of the venture structure can predict the success of the ventures (Rodriguez et al., 2009).

### **The influence of nepotism and cronyism on company management**

Concerning the social relationship among entrepreneurs and its stakeholders, it is relevant to understand the concept of nepotism and cronyism. Nepotism is a preference of an owner or a manager for hiring family-members instead of an independent candidate (Jones, 2004). Nepotism is common in family companies, where families use their control in the hiring process to perpetuate family involvement over time and across generations (Jaskiewicz et al., 2013). Jaskiewicz identified two type of nepotism, reciprocal and entitlement nepotism. Reciprocal nepotism is related to three family conditions: interdependence, extent of exchanges and norms that support obligations to family-members. Among family-members in family-business, these three conditions can lead to “generalized social exchange relationships”, which are relevant to effective “tacit knowledge management”. Jaskiewicz proposes that reciprocal nepotism can improve a company’s ability to engage in “tacit knowledge management”, which can enhance the company’s competitive advantage. In the opposite, entitlement nepotism happened without concerns of family conditions. This can lead to “restricted social exchanges” among family-members in family-business, which can miss synergies among family-members (Jaskiewicz et al., 2013). Cronyism is close to nepotism, but instead of involving family-members, it involves one friend to another by actual and perceived preferences (Jones and Stout, 2015). Generalized exchange relationships are a form of social capital and reciprocal nepotism is a process through which families can use that social capital to the benefit of the company (Jaskiewicz et al., 2013).

According to Salvato, research on family business has usually tried to find pros and cons on family involvement. The results are diversified and contradictory, and in spite of the numerous research on this subject, no conclusion remains on whether family ownership and family management are good or bad for a business (Salvato et al., 2012).

### **Knowledge-based economy over the entrepreneurship education**

Nowadays, economies are adapting to be more knowledge based, supported that the value of the knowledge is a vital component of productivity and economic growth. Karagiannis mentioned that, one of the fourth important influence of this change is the scientific and technological advances, which have emerged by the increase of resources on R&D (Karagiannis, 2007). Eid reveals that R&D promoted by higher education is positively correlated with productivity and economic growth (Eid, 2012).

Encouraged by the European Union, Portugal addressed the process to change the economy to the knowledge-based economy, to aim this change policies and actions were required. These policies and actions may be critical to have ambitious policies for the information and communication technologies, education, research and development, economy competitiveness, purchasing power and consumptions (Karagiannis, 2007).

The European entrepreneurship ecosystem was promoted by the European Commission through incentives to boost entrepreneurship by implementing key European Union (EU) policies. The Lisbon European Council, launched by the European government leaders, signaled an agenda to introduce reforms on employment and productivity in Europe. The Lisbon European Council recommended to the EU countries the creation of policies (sense making) based on knowledge and innovation to improve the competitiveness and economic growth, and allowing the transition to knowledge-based economies (European Council, 2000). Countries that later joined the European Union, including Portugal, have adopted the recommendation of the European economic-social model. As a consequence, of sense making, European countries developed a national educational programs for entrepreneurship to foster the entrepreneur education ecosystem, as a sense giving (Pereira et al., 2007).

The Lisbon European council encourages the knowledge creation and deployment to improve the economic and social performance in Europe for the following decades, in order to transform the European region in the world economy (European Council, 2000). The council strategy defines a plan of reforms for the European society by implementing policies to leverage the information society and R&D and by creating an accelerating platform to enhance competitiveness, innovation in the marketplace. There were executed macroeconomic European reforms and policies to harmonize the European Union countries strategies to build knowledge infrastructures, enhancing innovation and economic reform, and modernizing social welfare and education systems (European Council, 2000).

### **Entrepreneurship education and the entrepreneurial intentions**

Reveals in Raposo and do Paço (2011) study, the entrepreneurship educational system influences the knowledge base, achievement of skills, competences and attitudes that can influence the career choices. Education can open the horizons of the students by giving them better equipment to perceive opportunities and risks. Also the knowledge acquired can be used to pursue opportunities, by generation new ideas and found the needed resources, including human capital resources recruitment (Raposo and do Paço, 2011). Bartoš research reveals that there is significant difference in the attitudes of the entrepreneurs who have entrepreneurship education, which is positively correlated with the effective launch of a business and its success (Bartoš et al., 2015; Matlay, 2008).

The EU initiatives to promote the entrepreneurship ecosystem involve relevant stakeholders that are related to the economy, such as government, educational institutions, venture capitalists, startup incubators and other players (Alípio, 2006; European Council, 2000). As consequence of these incentives from the government, there has been a focus in developing entrepreneurial talent, which has stimulated entrepreneurship education in learning institutions, from kindergartens to universities. Additionally, more higher learning institutions are now offering core entrepreneurship programs or elective courses as a major subject (Matlay, 2008; Teixeira, 2012).

The Macrometria report reveals that the qualification of the startup's entrepreneurs is higher than the average level of the labor force in Portugal. In the Portuguese incubators network, the percentage of people that have completed a Bachelor, Masters or PhD degree is greater than 80%, as compared to the overall workforce in Portugal which is a mere 20%. The Macrometria study reveals that qualified persons tend to be more competitive and confident to create a new company than a low skilled worker. This can be the result of having better financial resources, a strong network of business associates

as well as family and friends that also provide them with valuable household capital to create a profitable enterprise (Macrometria, 2014).

Regarding entrepreneurship education, according to Hisrich, from 1996 to 2006 there was a significant increase in demand for courses about entrepreneurship. To address this gap, educational institutions have increased the number of entrepreneurship courses at both the first degree (undergraduate) and advanced degree (graduate) levels. Hisrich research discloses that in the seventies there were only sixteen education institutes in the world teaching entrepreneurship, while in 2006 there were more than 2200 courses in entrepreneurship being taught in 1600 institutions around the world. Additionally, research in entrepreneurship had a corresponding increase in educational courses, reflected in about 44 refereed journals in 2004 (Hisrich, 2006).

In another perspective, Cheng study shows that for entrepreneur education the most common method is via lectures with more interactive approach, by using case studies, guest speakers and interaction with successful entrepreneurs (Cheng et al., 2009). The research from Jaafar reveals that the entrepreneurship education in the university is positively related with the probability that students consider themselves to be entrepreneurs (Jaafar and Aziz, 2008). In spite of the importance of the entrepreneurs' education, educational institutions are more structured to help people finding new ideas over launching new ventures. Entrepreneurs are aware that educational institutions, and also companies, have limitation because of their strategic plan and financial structure, vis-à-vis the venture capitalists, which are focused on entrepreneurship investment (Zider, 1998).

#### **Venture capitalist over the management team**

Following the education programs, to increase the awareness of the entrepreneurs education programs usually address the importance of the venture capitalists (Valerio et al., 2014).

In the investor perspective, with the increasing complexity of resources needed and competition in the marketplace, solo founder decreases the probability of success of the venture. In the another way, the cofounders team plays a key role in the ventures' valuation by venture capitalists (Franke et al., 2008). Considering nepotism and cronyism aspects, Miloud study reveals that the quality of the founder and top management team of a new venture, significantly and positively, affect its valuation by investors, often when cofounders seeks venture capital financing in early venture's stage (Miloud et al., 2012).

Research shows that there is evidence that an increase on availability of venture capital affects positively new ventures (Deville, 2002). Regarding nepotism and cronyism, the investment projects in the early stage of the ventures resources are usually supported by entrepreneurs' extended household-members, family-members and friends. Macrometria report shows that in Startup Lisboa family and friends investment represented 32%, which is higher than in other world regions. In the North of Europe, it represents 25% and in Silicon Valley 22%. In Startup Lisboa venture capital and business angels only appear in third place with about 20%, while in Silicon Valley they represent more than 50%. Regardless of this difference, results show a positive sign, considering the numbers from the small relative size of business angels and venture capital investors in Portugal (Macrometria, 2014).

Investment and venturing are expected to create jobs and leverage the economy (Paik and Woo, 2013). Venture capitalists, investors as business angel or venture capital, are usually well positioned



to bring capital, through their ability to influence with their networking. Venture capitalists are usually looking for good managers in their dedicated business segment. For venture capitalists, cofounders valuation is related with their industry, role, skills, risk-taken, reputation in the sector and ability to sell themselves. The entrepreneur who can fit this conditions is in a good position to deal with venture capitalists (Zider, 1998). After family and friends, the main professional funding source for the entrepreneurs are business angels, which typically contribute with seed capital (small quantity of capital), advice and with experience on the sector. After the first round in funding, the next funding source may come from venture capital, which has a key role in the consolidation phase of the company, when firms typically begin to commercialize their product or services (EVCA, 2007).

The impact of external investors is showed in the Wasserman study. New entrepreneurs aim to be a star like Google, Tesla or Microsoft founders, which built large companies and led them for many years. However, a successful founder who managed a company on the top for many years is an exception in our world, based on the study "The founder's dilemma" (Wasserman, 2003). He found that most of the entrepreneurs did not stay for a long time in their leading positions, especially when their established companies turned into public corporations. According to Noam's study, by the time that new companies were three years old, only 50% of the founders were in the leading position and with four years old only 40% were there to fill the position as a CEO. Things get worse when companies come public: only 25% of the founders led their companies in an initial public offering. Noam also found other researchers who have subsequently realized similar trend in other industries and in other period of time (Wasserman, 2003).

Based on EVCA, European Private Equity & Venture capital Association, companies valuation depends on several factors, including business plan, assets owned, management team capital, employees capital, and other criteria (EVCA, 2007).

### **Business cycle over the extend-household human capital**

Concerning nepotism and cronyism, what is particularly impacted by business cycles? The extended-household members can be affected by the economic cycle (Allas, 2011) and, in consequence, it can be reflected on the extended-household human capital, which can be reflected on related ventures.

Regarding the relation between business cycles and entrepreneurship, Parker resumes the growing importance of the subject in the following way: "The financial crisis of 2008 together with the great recession that followed it have refocused economists' attention on the determinants of business cycles and recessions. It seems that the need to understand the deep economic causes of business cycles is no less pressing now than it was at the time of the great depression. Arguably, what is different now is the importance that policy-makers attach to entrepreneurship as a source of (economic) growth and recovery" (Parker, 2012). Recent research shows the key role that entrepreneurs play in the economy is by creating jobs, commercializing innovations, accumulating savings and wealth and driving economy growth (Parker, 2012).

In other way, Paik and Woo study explores how economic cycles affect the fluctuation of the amount of financial capital available into venture capitalists. The flows of financial capital into the market have a positive correlation with the economic upturn and downturn. They also suggest that venture capital-

ists shift the type of startup where they invest, considering risk and innovation, according to the economic upturn or downturn. (Paik and Woo, 2013).

The innovative entrepreneurs may have to consider the economic cycle phases to make strategic decisions and to determine when it is better to enter into the market. Paik and Woo research shows that companies that were founded during the recession period show better performance (Paik and Woo, 2013). Findings show also that the innovation cycle can be created by the financial investment cycle and understanding the relation between investment cycle and commercialization of a new technology cycle can be determinant for policy makers (Nanda and Rhodes-Kropf, 2013). In the social-economic perspective, starting a company in downturn may be a way to avoid unemployment, however this opportunity may be limited by the amount of human and financial capital of the enterprising candidate (Svaleryd, 2015). Economic cycles phases may be relevant to start a company as in economic upturn there are new business opportunities to encourage new companies (Svaleryd, 2015).

Concerning the impact on extended-household knowledge capital from the business cycle, the productivity and the economic cycle in UK support that personal skill have direct impact from the business cycle (Allas, 2011). Allas's work shows that, even with the decrease of the full time students graduating with first degree since the economic cycle peak of 2003-04, the number of these graduates increased marginally during the recession year of 2008-009, compared to the pre-recession year of 2004-05 through 2007-008. Additionally, there was a continuing increase in the number of students who graduated with other undergraduate degrees and qualifications, from 45,525 in 2006-07 to 51,975 in 2008-09. Allas's findings are aligned with the information that suggests that there has been a sharp rise in the demand over universities studies during the recession period and that tendency has remained to the next economic phase, recovery economic phase (Hinton, 2010).

Additionally, based in Hinton, about U.S. economic cycles, there are several sectors in the economy that receive a higher impact from the economic cycle, like transportation, manufacturing, construction, financial services, commercial real estate services, hotels, luxury and education. Hinton describe that some education institutions usually sees an increase in enrollment during the recession phase, in consequence of a poor job offer, which incentives students to view continuing education more favorably. Hinton also mentioned that during the 2001 recession, enrollment increased, doubled, at four-year for-profit education institutions. And during the first years of recessions, over the last decades, the enrollment in two-year education programs grew by an average of 12% (Hinton, 2010).

### **Stewardship and agency on extended-household employment**

Regarding self-interest and commitment over an entrepreneurship, it is important to understand the stewardship and agency concepts on the venture creation, because in startups usually the members are family or friends (Bygrave and William, 2004).

This analyses considers family in the context of the extend-household members, which include family and friend. Agency theory tends to focus on the contract relationship between the principal and the agent, where the principal are the business's owners and the agents are the managers. The agency literature on nonfamily companies give attention to explain the principal-agent contract, where the incentives for the managers are aligned with the outcomes required by the owners (Dodd and Dyck,

2015). In this form, family companies might enjoy a relative advantage because owners and managers are usually in the same side, which automatically align owner and manager interests. However, it is not irrelevant for family companies, because of how managers in family companies preserve the socio-emotional wealth among family-members on the business in opposition to their companies performance (Dodd and Dyck, 2015). Stewardship theory diminishes the assumptions of economic self-interest and opportunism and suggests that people are also motivated to be generous and altruistic ideals. Academics tend to argue that stewardship practices are more common in family business than in nonfamily business (Dodd and Dyck, 2015).

Education program can support cofounder's interpretation of the duality stewardship vs. agency, where Cunha summarizes: "It might also be argued that sometimes the agency vs. stewardship debate assumes an explicitly dualistic format, with stewardship representing right and agency representing wrong." and he suggests otherwise that, "instead of seeing stewardship and agency as dualistic oppositions, it is more adequate to frame them conceptually as an opposing duality, i.e. as processes that contradict but also reinforce one another." (Cunha et al., 2016).

Also considering nepotism and cronyism in the context of extend-household members in the venture, business education offer information to understand the relation between owners and managers, increasing trust and lowering agency costs in this these relationships (Lansberg, 2015).

## **Methodology**

The research question was answered through an inductive analysis of the topic (Thomas 2006). Experiences were thus reported following the expert interviewees, informants, and perspective into the previously explained contexts about entrepreneurship education influences nepotism and cronyism definition.

### **Research design**

The research approach uses a qualitative grounded-theory, since it was understood that it should be appropriate to generate a new interpretation. Briefly, grounded theory methods consist of systematic, however with flexible guidelines to collecting and analyzing quantitative data to construct theory "grounded" in its own data (Charmaz, 2006: 2:3). Grounded theory prompts taking a fresh look and creating novel categories and concepts (Charmaz, 2006: 21:25).

Inductive research in the social sciences can be reconciled with the apparently conflicting demands of a scientific tradition of "rigorous" theoretical advancement. To balance this frequent conflict there is the need to use a holistic approach to the inductive concept development (Gioia et al., 2012). The informants didn't usually use the existing theory and terminology terms in their descriptions. They used categories of "strategic" and "political" to classify issues that demanded attention and action instead. In this way, I used Gioia methodology as to not miss the key aspects of their sense making (Education European policies), and also their sense giving (National education policies), by imposing the academic preordained understanding on their experience (Gioia and Chittipeddi, 1991). Additionally, it is also a challenge to understand if the informants are lying, in a works around to protect themselves or their group, expressing their ignorance or other factors (Maanen, 1979)

## **Data collection**

The data was gathered through 17 expert interviews in two rounds, first from 5 face-to-face interviews and second from 12 interviews by phone calls. Original data (about 126 pages of interview transcripts, approximately 24.706 words) analysis followed the general proposal explained by the Gioia methodology (Gioia et al., 2012). Being a qualitative study, the main goal of the study was to explore the factors that influence the cofounder's management in relation with their family-members. To address this aim, interviewees were addressed in an informal colloquial tone to give them enough comfort to describe and reflect on the experience, as well as to share and advocate their ideas and point-of-view regarding the company and family-members' management contexts through structured interviews with open-ended questions (**Annex 4**).

## **Insider-outsider approach**

With the first round questionnaire, I aimed to find insights regarding family-members' context, in the well defined and awareness family-business company, to define my questionnaire for the target group, entrepreneurs. I employed an insider-outsider approach (Gioia et al., 2010) to give voice to the knowledge from the insiders (the family-business companies), who could best articulate the rationales for the conceptions and actions that affected the formation and development of the new organizations, in the context of the entrepreneurship. The 4 members of the family-company provided several insightful commentaries throughout the findings in the role of insiders, in the context of people's interaction into the family-company.

## **Sample and procedure**

All interviews in the two rounds were conducted in an appropriate time, scheduled by the interviewees themselves, were audio-recorded, and were transcribed verbatim. In the first round of interviews, I did the first 5 interviews (three males and two female) after arrangement with the company board and the interviews were conducted at the headquarters of the company. In the first round interviews, they represented a founder, a non-board family-member, two employees and a General Secretary of the Portuguese Family-business Association. At the beginning of the interviews, I explained the context of the interview following the questionnaire, question by question.

In the second round, I did 12 interviews, respondents (twelve males) were all cofounders with an executive management position, at the moment, in the companies. Except one interviewee, they belong to Generation Y, X and Millennial, with an age range from 35 to 60 (mean: 43). They represented entrepreneurs and investors. The phone calls sample were purposefully restricted, as I was interested in reaching specific cofounders experiences and external factors, which involve cofounder's family-members. In phone round interviews, a first phone call explained the goals for the interview and asked interviewee to schedule the interviews. In the second call, if the interview was not conducted in the first call, the interview ran, question by question.

## **Change in progress**

I used a semi-structured expert interview, but never lost the focus in the research question. This research was prepared to be open to adjustments during the development. This flexibility gave me the possibility to adjust some questions on-the-fly, which became redundant or inadequate. Additionally,

the interview plan was designed for entrepreneurs, but during the process it was relevant to include financial investors and a specific set of questions to them. Moreover, informants reveal how they are concerned about their proprietary information. As one key informant said for the Gioia study, "I'll tell you anything you want to know, so long as you don't embarrass me." (Gioia et al., 2012). Exploring life disruptions or stigmatized behaviors may raise questions of being intrusive. During the process, I adjusted my interview questions, when I initially asked for a "personal conflict", because the interviewees worked around the question and avoid answering to the embarrassing context of it. In that way, this flexibility gave me the possibility to go back to the question in a different perspective, exploring the uncomfortable question in other form (Charmaz, 2006: 29:35). This agility gave me the opportunity to extract more insights from the interviews (Gioia et al., 2012).

### **Defining the sample size**

Based on the ground theorizing (Charmaz, 2006), the number of interviews, to be conducted in the research, was contingent on the progress of the interviews. Expert interviews are not easy to find and the final number of the interviews is partially subjective, but can be theoretically supported in the fulfillment of the clusters, when an additional finding will be of no relevant added-value. I used line-by-line coding, which means naming each line of the written interview (Charmaz, 2006).

### **Data sorting and analysis**

Gioia methodology was used to organize and construct conceptual meaning. The aggregation dimensions were identified through a three-step procedure, where the 1st-order analysis, which tries to maintain as much as possible the informant terms, tries lightly to identify concepts, so it promotes an explosion of the number of concepts at the first stage of the study. The 2nd-order analysis is now clearly in the theoretical realm, asking the emerging themes suggested by the concepts that might support the study to describe and explain the phenomena that it is observed. These processes show a smaller number of themes, as the first concepts were organized into encompassing themes (Patvardhan et al., 2015). According to the methodology, after a workable set of themes and concepts is on hand, it is the moment to investigate whether it is possible to distill the emergent 2nd-order themes even further into 2nd-order "aggregation dimension". This methodology is presented in a tree-column figure (Annex 1), in order to support and help the analysis, which facilitates the emergence of the relations and characteristics that were presented by the informant's language (Gioia et al., 2012). Following this methodology, the main goal of the study is presented, which is reached by reducing the significant amount of superficial information into the essential, non-visible, and abstract deep core. Coincident with the data collection and after the initial stages of the analysis, I started cycling between emerging data themes, concepts, dimensions and relevant literatures, not only to find previous studies, but also whether I found new interpretations (Gioia et al., 2012).

## **Findings**

The nepotism is a common hiring mechanism policing in family business, although cronyism as being less common (Jones and Stout, 2015). Findings goes to understand influences of entrepreneurship education over nepotism and cronyism definition among cofounders. Having in literature review the

extend-household, nepotism and cronyism concepts explored, findings start to explore the motivation of governmental policies over the entrepreneurship education and the implications over education programs. After, considering the Nepotism/cronyism entrepreneurship model (Annex 2), the review goes to venturing capitalist, business cycles, stewardship/agency and household analyses, because their impact on the concept definition of nepotism and cronyism.

### **The impact of the knowledge-based economy on the entrepreneurship education**

As a sense making, the Lisbon European Council (2000) brought critical ambitious policies for entrepreneurship education programs, education information and communication technologies, research and development, economy competitiveness, purchasing power and consumptions to develop the knowledge-based economy, replying to the reveals that Karagiannis shows in his study (Karagiannis, 2007). Regarding governmental incentives, European Commission since 2000 is incentivizing (sense making) European countries to promote the European knowledge economy to be more competitive and dynamic in the global world (European Council, 2000). Concerning the national education program for entrepreneurship into the schools (PNEE), Portugal began to privilege knowledge and innovation, to promote entrepreneurial education and to create infrastructures to foster entrepreneurship, although education appears as an essential way to achieve the goals of the program (Teixeira, 2012). The interviews reflected the consequences of those implemented policies as mentioned by Miguel Barbosa, "The start-up market is growing and we never had such a well assembled ecosystem." and highlighted by Miguel Henriques that "In Portugal, it's too early to evaluate the impact of the entrepreneurship education". Also referred by the PNEE program, the actual situation of the schools and education curricula already comprises the conditions to promote the program. Although an entrepreneur education depends essentially on the will, investment, and openness of a new form of work, and to a new attitude in all educative agents (Pereira et al., 2007).

Apart from the regulated education, Portugal has others institutes and promoters to foster entrepreneurship. For example, ANJE has counted more than 58 institutions, with entrepreneurship programs and the entrepreneurship education evolution in Portugal is aligned since 2000 with the PNEE from the kindergartens colleges to universities and also in private and social initiatives (Alípio, 2006). Regarding incubators, ANJE also reported that there are promoters, counted 30 organizations in 2006, with real incentives of entrepreneurship in Portugal, such as accelerators and incubators. Incubators deliver incentives for new entrepreneurs through education programs, networking, resources, and investment partners. They have work-guidelines for the startups companies, to frame how the promoters should do to be evaluated by the investors, when promoters submit their project to the calls. Those criteria align the company with constraints to fill particular requirements. For example, Startup Lisboa call regulations incentive that applicants come with structures that reply to the multi-skill team. Additionally, DNA Cascais also look for agile partners. Also according to Portugal Ventures Calls, regulations for application admission consider cofounders and governance requirements considerations for the new companies. Miguel Henriques mentioned that "One of the things investors look into and discuss when investing in a startup is precisely the nature of its cofounders. Why are they on the project and their commitment level. Therefore, it's fundamental for us to have not only the founder, but a team of founders and that we understand the value that each one of them adds to the project. It's even

common practice to add some clauses stating that the cofounders have to remain attached to the project for a certain period, as a condition to go ahead with the (investment) operation.”

In consequence of European Commission incentives, Portugal developed a National Education Program for entrepreneurship that developed the new perspective of the entrepreneurship education ecosystem in Portugal (Pereira et al., 2007). It is relevant for this paper that organizations which promote the entrepreneurship incentive a team of cofounders to address the challenge of the venture, concerns nepotism and cronyism on the cofounders and team capital.

### **Impact of the entrepreneurship education over startups' creation**

Entrepreneurship education aggregated dimensions led me to understand if the entrepreneurial education foster ventures, in contrast with the time when there wasn't any entrepreneurial education offer.

In the common sense, it is still said that entrepreneurs are born, not made (Southerst, 2014), as mentioned interviewee João Ferro Rodriguez “I am very skeptical about the education for entrepreneurship. It's a down side from trying to reach everyone. The truth is that not everyone was born or raised with the interpersonal or resilience skills for this kind of activity. That generates a lot of frustration, and since many people are not aware of this and decide to become entrepreneurs. If they made an exercise on introspection and self-analyses, the first answer they would get is that they shouldn't go for it.”

This brings the elementary question about the consequence of the entrepreneurship education, “Can the entrepreneurship course improve the entrepreneurial intentions of students?” that lead me to the research from Chen, based in an experimental teaching that lasted for 18 weeks and was controlled by adopted pre-test and post-test. During the experimental study, in addition to the lectures from the instructor, an experimented entrepreneur speaker was invited to be a mentor co-teacher. In one hand, they found high satisfaction and better learning efficacy about the content and teaching process. In the other hand, they found that the entrepreneurial intention of the students had not been improved. However, the study denotes that in the entrepreneurship courses, students understand better if they were “born” to follow an entrepreneurial career. Moreover, these education courses do not teach students how to be an entrepreneur, however they are able to apply the learned subject in their future jobs. In the opposite, with this entrepreneurial career lost intention, mentor co-teaching raise the satisfaction and the learning efficacy in the students during the course. Students become more aware about the challenges related with being an entrepreneur (Chen et al., 2015).

Those findings are corroborated by João Ferro Rodrigues “All this entrepreneurship education offers are very positive tools for people who have an entrepreneurial character, however it can develop a negative impact, produce entrepreneurs, it doesn't exist. And the problem today is this exaggerated entrepreneurial trend. What it does not matter, there are people who have the profile of teachers, other have higher risk as a profile of entrepreneurship, others are more conservative and have tendency to do work as an employee, does not bring any harm. Not all people have to be entrepreneur. I would say that the first derivative of entrepreneurship be taught in schools is positive, because it gives tools to those who already have this pre-release, helps shorten way.”.

According to Zider, education institutions are more structured to help people to find new ideas than launch new ventures, and entrepreneurs are aware that educations institutions, and also companies,

have limitation because of their strategic plan, team profile and financial structure in opposition to the venture capitalists, which are focused in entrepreneurship investment (Zider, 1998).

Regarding the selection for the entrepreneurship courses, the interviewee Miguel Barbosa stressed that "Segregation of students for this courses is a very important issue, but to that I have no answer. An entrepreneur is born or trained as such? I think that in the end is a bit of both. Some people have it on their DNA and some don't. Even if you are an entrepreneur you may need to acquire those skills."

In other perspective, regarding to the "consumers" of the entrepreneurship education, Wylie research said "Proponents claim that a daily dose of computer games can make you more focused, boost memory and processing speed, quicken your decision-making, and improve your problem-solving ability". The new generations, including new entrepreneurs, are using the easily available information with more independency, which give them more autonomy to choose their path and grave new ways to fill their goals, in private, professional and social life (Wylie, 2011). According to Cheng research, recent entrepreneur courses adapted their programs for the new reality of the knowledge-based economy. In entrepreneurship education programs, the most common method is via lectures with more interactive approach, by using case studies, guest speakers and interaction with successful entrepreneurs (Cheng et al., 2009). Interviewee Miguel Henrique mentioned that "The teaching focused on entrepreneurship allows certainly for an entrepreneur's culture and spirit, and seems to have a positive impact for those with an entrepreneur's spirit. In Portugal, we had a long time apart and our culture is not entrepreneurial, I think the impact is very positive, because we more easily grasp hold of innovations and fashion, I think we can have a very positive impact."

Southerst supports that education institutes saw an opportunity to provide tools and environment to facilitate and promote entrepreneurship. Also mentioned that educators said that even the participants who do not turn into an entrepreneurs can benefit from the experience received in the entrepreneurial program as a foundation for a career, "Students going out into industry are going to be expected to be more entrepreneurial in their roles" and "Learning how to start and run a business feeds a natural inclination to find new ways of doing things, and that is invaluable in the work world today", said by Tan-ya McDonald from Centre for Innovation at Alberta's Olds College (Southerst, 2014).

In consequence, from the entrepreneurial education, co-founders acquire tools and skills that can contribute to be more aware about team build, which can influence nepotism and cronyism definition. There was a rise of entrepreneurial courses at academic institutions, colleges and economic incentives programs in Portugal. Miguel Barbosa supports by mention "Training is very important. An entrepreneur can not only be technological, because the company does not have enough human resources. The entrepreneur has to have a range of higher valences and acquire competence in entrepreneurship schools. I subscribe to the school since 2003, postgraduate, and we see that those who are there absorb that information almost eagerly, because in university courses only had valences in their areas and then clearly lack the areas of management and business."



### **The influence of venture capitalist over the management team**

Following the awareness that the entrepreneurship education programs give to the importance of the venture capitalists, it is important to understand the impact that venture capitalist have over the management team formation and over the human capital of the venture.

In the venture's early stage, according to Miguel Barbosa, "the company is commonly only a mind concept of the entrepreneur, who believes that he has the vision and the motivation to roll the venture into a successful company" and "With the arrival of the investor matters become more structured. In many occasions, through reports, we witness the startup necessity for consulting backup, given by more experienced people, namely by the independent board member (IBM), because some skills are scarce and others can be compensated by the resources available through the venture capitalists.". However, in the following capital raise investment stages, usually venture capitals consider having more control over their investments in the company and, if the founder CEO doesn't show results as they expect, they typically invite an external director (IBM) to join the shareholder's assembly. Noam's study shows that 20% of entrepreneurs are forced to leave the position of CEO. Founders are forced out of the control against their willingness and before their plan to resign (Wasserman, 2003)

Regarding the impact of the extended-household investment, Miguel Barbosa mentioned that "It doesn't always happen like that (receiving investors), it was more frequent in the past, 10 or 20 years ago. People were very centered in the 'Family, Friends and Fools', because of the initial investment order and execution time. Nowadays, it's still easier to work with friends and family. However, from what we see, there isn't necessarily an obligation to work with family or friends, there is a greater professionalization of those skills. Other startup areas, if cofounders do exist, should be based on competence and not friendship.". That is aligned with Bygrave findings, early investments usually come from "Founders, Family, Friends and Fools" (Bygrave and William, 2004) and also Macrometria reports, entrepreneurs commonly invite family-members, friend, and investors into their companies (Macrometria, 2014).

About the external investor's influence in the management of the venture, as Franke mention, solo founder decreases the probability of success of the venture and the cofounders team plays a key role in the ventures' valuation by venture capitalists (Franke et al., 2008). Interviewee Miguel Henriques, said "Since business angels jump in on an embryonic stage, it has a great impact, because later on, with more funding needs, the way the cofounders react to this issue is very relevant. It's jumping out of their comfort zone for the entrepreneurs. Preparing for the funding round it's an important step for this jump, it has the impact of starting to see their own business, not through their own eyes, but from the outside.". Also mentioned by Miguel Barbosa "When starting a venture, many founders realize that their financial resources, their ability to led and inspire people, and their passion are not enough to grow and capitalize all the opportunities that they envision for their project.".

In case of the inclusion on the shareholder's assembly of an external investors, through an Independent Board Member, it challenges the management control of the enterprise, as mentioned by Miguel Barbosa. Sometimes it serves as a complement of the competences to manage the company (Rodriguez et al., 2009). In contrast, as an example mentioned by Ricardo Mendes, "In our case, for example, is something we already formalized, having no external investors in, we already have a

management team that has other people, who are not the cofounders, who bring experience in formal management of other companies, namely larger companies, banking, listed companies. Therefore, it prepares us for the entry, if we want to, capital without major changes in management."

Resuming, for investor nepotism and cronyism can be an issue. Based on Miguel Barbosa, "Family-members and friends, which join the companies through the founders, can be a problem, because of the emotional attachment and loyalty towards the founder." that highlights the concern about nepotism and cronyism raised by investors (Miloud et al., 2012).

### **The impact of the business cycle on the extend-household human capital**

This issues can be important by understand the impact of economic cycles on the extended-household capital that influence the concept of nepotism and cronyism.

As mentioned by Allas, the extended-household members can be affected by the economic cycle (Allas, 2011). In the context of business crises, the interviewee Nuno Martins mentioned that "I would say that the market competitiveness and the innovation aspect are the key aspects in terms of business survival. Obviously, like in any other business, the quality and discipline issues, the trust established with the customers, all are very import in our activity."

The internal environment in the companies can be influenced by external actors, some of which are directly related to the business itself. There are several sectors that suffer from the economic crises, however there are other sectors that find opportunities to explore. Still, in global crises there were a higher number of companies who went in stress, because of the decrease of the natural market. This is the time when the company and personal resilience is put in test, especially between top managers and its collaborators (Baye, 2010). Miguel Henrique relates economic cycles with the market for startups as follows: "A depressive phase lead, due to lack of employment alternatives, the greater business creation. There is a whole context of support for startups. In contrast, a more recessive phase the market is more difficult and creates difficulties. In a growth phase, it is more difficult to mobilize own entrepreneurs and social-economic ecosystem, but there is more market for startups. "

As Parker (Parker, 2012) mentioned entrepreneurs have importance as a source of growth and recovery. Business cycles explain that the economy growth oscillates around the growth rate and does not have a linear evolution. Those oscillations are expressed as a series of economic expansions and recessions. For the purpose of this study, and apart from complex and new explanations, a classic explanation of the four phases of the economic cycle was considered (Plosser, 1989). The expansion phase is when there's economic and stock market growth. In the peak phase the economic growth rate falls off and markets reach the top. The recession phase follows the peak phase and it is characterized by the economic contraction and with the declining of the stock markets. Finally, closing the cycle, there is the crisis, where there is a stock exchange breakdown and several enterprises go bankrupt, before rebounding into a new expansion phase. These cycles, around the four stages, can last from 1 to 12 years (Baye, 2010). The innovative entrepreneurs may have to consider the economic cycle phases to make strategic decisions and to determine when it is better to enter into the market. Regarding investment, Paik and Woo study explores how economic cycles affect the fluctuation of the amount of financial capital available into venture capitalists (Paik and Woo, 2013).

In consequence, concerning the impact on extended-household knowledge capital from the business cycle in the productivity and the economic cycle in UK, Allas' reveals that personal skill have direct impact from the business cycle (Allas, 2011). The business cycle can affect the extended-household capital, by affecting their members. Those implications on extended-household capital can be at least from unemployment, lack of human and financial resources, business opportunities and education enrollment, which may influence opportunities of nepotism or cronyism in the venture.

### **The influence of the household human capital over cofounders management**

In extended-households capital valuation, external factors have influence regarding blood and non blood members' formation, interaction and structure (Distelberg and Sorenson, 2009).

Following the impact of the business cycle in extended-household, the paper "Stand together or alone?", explores the relationship between business cycle fluctuations and family formation and structure. They found a negative correlation where an increase in the unemployment rate is associated with a decrease in the numbers of marriages formed per thousand single females each quarter. Other finding of this study was related to the relation of the marital status and family type. They show that the relevance of the economic cycle varies substantially by age group. In the group of 25 to 44 years old, there is a significant expansion in single parents with children under 18 when unemployment rate increases. Among the 35 to 54 years old group, there is a relevant rise in those living alone. Also found some evidence of elder parents joining the households of the group of 45 to 54 years old and young adults (from 18 to 24) remaining with their single parents in the period of the recessions. And generally, they found evidences that a decline in marriages during recessions seem to be driven by a decline in remarriages rather than a decline in the first marriages (Ariizumi et al., 2015).

And according to Gersick, the business develops in a three-dimensional model, each of the dimension, shareholders, families and business, have slightly differences, the pace and pattern of development over time is different among them, behaviors that are usually the root of the organization conflicts, specially in business economical cycles (Gersick et al., 1997). As noted by interviewee Victor Ferreira one difficult moment in a company management, "I have a company now with a family, where I am partner with my father. The main difficulty is the management itself of the business and there are numerous different difficult episodes. They always involve decision-making with regard to growth or business opportunities that the company itself may have. Not always the partners are in line and this leads, from both sides, to that person or choose to opt in or out by that business. Thus, they are more difficult situations, the experience I have, are always the most difficult situations to manage."

Regarding decision makers, Davis shows the importance of the right and fast action to respond to a situation (Davis and Lawrence, 1978). When the recession phase of the economic cycle begins, decisions makers, in the companies who have a negative impact, may become significantly bothered by conflicts among subordinates as well as by the delay in decisions taken by the structure to respond to the negative business environmental situation (Morris et al., 1994). Also, stressed by Victor Ferreira, "In my opinion, the top management structure should act quickly over the business and should think that there is no time for organization toying and tinkering."

In another interview, Sérgio Teixeira described his experience, when he worked in the same company as his father. A company where it's common practice that son and father usually don't work in the same team in order to manage conflicts. Sérgio Teixeira said "Parents and sons do not work together, because there is a certain aversion to work in the same workplace." and he reply to the question "-Did you work directly with your father? – No, on the contrary. That was more or less common practice, myself or other people, that we know that came to work in the institute and had our parents working there as well, always worked in different areas than our family."

Resuming, when nepotism and cronyism are involved, extended-household capital can bring considerations on group formation, conflict management, opportunity of team building or decision making that can influence in the cofounder management of the firm.

### **Impact of stewardship and agency on company human capital**

Addressing the self-interest and commitment of co-founders that usually incorporate family and friends members on the venture (Bygrave and William, 2004) can be valuable for the understanding the management and employees team formation.

The research reveals that agent and stewardship have mixed feelings among interviewees. In agency conflict, Victor Ferreira said that "So, if I'm here with my colleague, where both of us have decision capabilities, but different visions, we argue, we justify our points of view, and we go home, win or lose, we go each other our own way. When it involves family is always different, we do not go each one to his side, because we have one too intense life beyond our work and sometimes a decision or disagreement can take also, ultimately to a quarrel or a bore in the relationship beyond professional aspects. And that makes a lot worse things than if is an unfamiliar company.". He also expressed a stewardship concept among family-business, "Family businesses are short of processes, but more bitterly than large companies.". In conflict management involving nepotism, João Duque Vieira referred that "In a conflict perspective, I already passed several times through it. I have been through many times by envy and like that, because there are people who for some reason, because things are more complicated or because they do not understand the whole story now, do not understand why sometimes I can better treat my wife (partner) for some reason than to give to someone else. ".

Another important factor is related to the utility function in the economic model, where economists say welfare of individuals is positively linked to the welfare of others, like parents that are generous to their children. It also incentives family-members to be considerate with each other and care for each one in case of need, even if they have to sacrifice the corporation (Schulze et al., 2001). Moreover, this situation includes also family-members when they have to interact professionally and influence on the business, as disserted in the paper "Executive compensation in family firms". In this study, the authors found that a decrease on performance in the corporate governance, and a relevant splitting of the control of the company by other family-members, has a negative impact in other family-members concerning compensations (Cheng et al., 2015).

Resuming, considering that startups usually involve extend-household members, stewardship and agency factors can influence employees' commitment, team performance or conflict management that may impact on the cofounder management of the firm, if nepotism and cronyism are involved. This

highlight the principal-agent model, which have a relevant impact on corporation governance policies, based on M. Jensen publication "Self-interest, altruism, incentives, and agency" (Jensen and Meckling, 1976).

### **The impact of cronyism and nepotism on cofounders company management**

The stimulus that cofounders and top managers can receive comes from all around, like internal and external factors that can impact the business. For example: from its role in the company, from the person itself, from their friends, from their family-members or from the factors above analyzed.

The extension of the definition of family boundaries, Distelberg brings some friend to a close level as family-members in the company management context (Distelberg and Sorenson, 2009). As documented in "Executive compensation in family firms", in contrast with the shareholder who controls the company, other family-members that have shares in the company may have different goals. Chang mentions that in a family-business contract situation, agreements can be away from an economic reasoning. Family interaction usually has irrational consequences, such as sibling rivalry and generation envy. Family rivalry can influence negatively the corporate governance system. Those conflicts among family-members may influence the formulation and implementation of the compensation plan (Cheng et al., 2015).

Can this factor have impact on cofounder management decisions, specially from cronyism and nepotism pressure? The interviewee Sérgio Teixeira mentioned it in the reply to the question "Did that (nepotism) harm the productivity and profitability of the company? - This cases I know are cases where the progress based on merit and the choice of the best candidate to perform certain functions were hurt by the presence of persons whose family ties protected them and therefore the direct consequence is that the company is loosing with that, because it doesn't have the best people in those positions, it has those who inherited them."

Miller shows the influence of the family-members in the leading of the company, in "Siblings and succession in the family business", he describe a situation where the founder and his succession is a challenge (Miller, 1998). Miller also stressed the influence of the non-executive family-members in the decision of the management board by the Benson wife and son (Miller, 1998). According to Cheng, management decision activity is harder to prevent when there is more than one family-member involved in the company. Moreover, inefficiency can be the result of family ownership, such as recruiting a family executive when he is not the best option or from hiring an incompetent family executive or offering company resources to family-members with no justification (Cheng et al., 2015).

Avoiding the nepotism conflict by family employment, João Pedro Rodrigues said: "We are 15 people (in the company) and has never happen nor never put on the table the possibility. I myself now have thought and have considered the case of my wife, who is a professional business development and could do well a certain function, but I personally, being general director of the company, I think it makes no sense, and does not seem to the phase in which the company is, not being a family-oriented company and having external shareholders with 60% share in the company. I think it would be something wrong. And also by personal issues, like split life contexts and also did not seem an attractive position from the point of view of my day-to-day, my and my wife. This was not taken as a

principle, there is nothing written in stone. Never happened to relatives of other cofounders. And I have the active participation in fact, I've thought of that possibility, but I ended up abdicating it, but for reasons of my balancing personal and professional life."

Additionally, in the "Are family firms really superior performers?" paper, Danny Miller shows a pertinent difference between solo-founder and a multi-family-member corporate because ownership of other family-members can promote a source of conflict, such as over control into the family company (Miller et al., 2007). Accordingly, to Jensen, in one hand, solo-owner management not only reduces the effectiveness of external control mechanisms, but also they expose companies to a closed control problem created by owners' incentives, which take own-managers to act not exclusively in benefit of the corporation. In the other hand, a low performance in a family business with multi owners can suggest that those founders and their family-member partners may not share the same vision and can accumulate several conflicts of interest. A family-member who holds a large share of the company may incentive the founder to magnify his power and influence in the company (Jensen and Meckling, 1976). As Victor Ferreira mentioned in his interview, he experienced this problem when he had to adjust the better proposal for the company only to keep healthy the extra-work personal relation that he had with another family-member who had half of the company. Also José Henrique mentioned on the interview that "I co-founded the company, with only with 20% of it, but with the increasing of the potential of conflict, I agreed with my Cofounder family-member to buy shares to control the company."

In company valuation perspective, Jensen documents that, when ownership is fractioned among inside and outside owners, agency theory supports that changes in the owner-managers incentives will cause the companies value to decrease, specially because executive-owners with a fraction of the company will only have a fraction of the cost of the benefits it receives, and this incentives partial-owners to act opportunistically and make decision to their own benefit in opposition to the other outside owners (Jensen and Meckling, 1976; Jensen, 1994).

In consequence of nepotism and cronyism considerations, nepotism and cronyism can come from each co-founders' family and friend members. The members' boundaries limits are usually better defined when involve nepotism then when involve extended-household members (nepotism and cronyism), where friends of each cofounder can diffuse the limits. Extended-household members can effect the cofounders in the company management, which can involve decision making, extended-household recruitment or anti-nepotism policies.

## **Discussion**

The relation can be complex and opaque among extended-household members, which include co-founders' family and friends members, specially in a work environment, and it can be difficult to understand it. Nevertheless, the family definition by Distelberg's (Distelberg and Sorenson, 2009) contribution to better understand the cofounder's dynamics considering nepotism and cronyism among cofounders.

First, sense making/sense giving theory tends to standardize the actions (Bartunek et al., 1999) from the European program (European Council, 2000; Karagiannis, 2007) and from the Portuguese education program (Educação, 2008) in the promotion of the education entrepreneurship, which can influence the knowledge base, achievement of skills, competences and attitudes that can guide the students' career choices. Education can open the horizons of the students by giving them better equipment to perceive opportunities and risks, including regarding nepotism and cronyism pros and cons (Bartoš et al., 2015; Raposo and do Paço, 2011; Zider, 1998). There are several players that are working organized and incentivized by the Portuguese government programs (Alípio, 2006), which influence most of the players on the market, including education stakeholders. These activities try to promote methodologies and practices to push entrepreneurs' candidates to the world of the ventures, and in one hand there are persons that can be traced to be an entrepreneur and in the other hand, there are candidates that are not fitted to be an adventurer in ventures. In overall, this factors, educated by Deductive learning process (Lansberg, 2015), can influence the perception of the cofounders in their ventures, where competences to roll the company, among the cofounders and employees teams, and performance of the company usually are in high stand of cofounders concern about the value of the company. This is also a key factor for ventures capitalists to invest on the company (EVCA, 2007; Zider, 1998).

Second, the EU entrepreneurial education policies (2000) and actions to promote the knowledge-based economy involve relevant stakeholders, such as government, education institutions, venture capitalists, startup incubators and other players (Alípio, 2006; European Council, 2000). In consequence, stakeholders focus to develop the entrepreneurial talent, stimulate entrepreneurship education in learning institutions, from kindergartens to universities. Moreover, higher learning institutions are now offering core entrepreneurship programs or elective courses as a major subject (Teixeira, 2012). Considering the extended-household capital, involving cofounders' family and friends, education programs enrollment increase during the recession phase in consequence of the poor dynamic of the economy and job creation. Today the education for entrepreneurial can change the way entrepreneurs frame their ideas into business, including the earlier consciousness selection of the stakeholders and shareholders, among family members, friends and external investors. Entrepreneurship education can have an impact towards entrepreneur intention and entrepreneur careers (Ramayah et al., 2012). The entrepreneur education programs give to students an opportunity to develop their skills, attributes and behaviors to improve their chances to the success (Kirby, 2004). Moreover, more higher learning institutions are offering entrepreneurship programs, as elective courses or as a major subject (Teixeira, 2012), which may enhance the influence of the entrepreneurship education over the perception of the venture capitalists, management team configuration, and business cycle among the knowledge-based economy stakeholders.

Considering that entrepreneurial courses are open for all, we could consider that having a business degree is optional for those that don't desire to have a position in an established company, however this may influence the entrepreneurship growth curve. The framework to build a company, that we can have access through one of the entrepreneurship promoters, rise questions that before the movement in favor of entrepreneurship did not appear in the early stage of the companies. Like for example team

building, employment policy, exit plan, demand criteria for partners selection to launch the company, investment request, and others. These influence how extended-household members are selected in the team building to achieve the goal of the venture, contributing to shape the dimension of the influence of the nepotism and cronyism. A fact that was evident in the interviewees was that, who started the companies without the support of a proper education in entrepreneurship, usually didn't develop an exit plan and business governance documents, yet. Nevertheless, some interviewees already have an idea in mind about the subject. In other way, startups that pass-through an entrepreneurial education can have those points in the to do list and in the business plan, since the early stage of their venture. It is also important to consider that the impact that inductive learning process is having the knowledge-based economy, where everyone can have access to the information through internet and own experiences, and they may plan their new experiences and reflections in their pace.

Third, regarding external investors findings, company growth can be painful and the founder and his close employees, including family-members, can be under pressure. Usually, founders have insights about the opportunities and have the specific knowledge to conceive a disruptive idea of a product, service or business model that can raise the share-value between its ventures and the target customers. Entrepreneurs build a team to develop the opportunity according to their vision and usually they develop a strong connection with those first collaborators, which usually is the base of the organizational culture of the company where his personality and preferences are reflected. The faster founders call for outside founders and new management skills, the quicker they can start losing management control. When investors plan to change the control of the company, employees enter in special account, because any modification can affect the motivation of the founder. The possible change in the management board can directly affect the dynamics of the founder's nepotism and cronyism influence, and in the limit it can encourage them to leave the company. It can reflect directly into the risk and the performance of the company and its financial results, to which investors are very sensitive.

Enterprises evolution can involve changes in their control, mostly by external investors, and it usually reflects in the continuity of the founder in the control as a CEO. This can be reflected directly in the position, networking and power of the founder extended-household members and put them out of the "family" succession. Entrepreneurship education program bring awareness to entrepreneurs regarding the relation with the venture capitalists when they are starting a business and the lack of resources to run and grow to a successful business. Therefore, entrepreneurship education makes entrepreneurs better equipped to better plan and handle the transitions resulting from external investors.

Fourth, the findings regarding the influence of the economic cycle reveals that, independently of whether the business of the company usually is running aligned or against the economic cycle or against the cycle, it is worth mentioning that companies are willing to observe inefficiencies in their business cycle expansion phases and are forced to improve its results in its businesses recession phases. Business cycles can influence directly the investment, where the relation among sectors in the market determines the best phase of the economic cycle to invest on it, resulting on an investment cycle (Allas, 2011). Investment cycles commonly have a strong relation with business cycles and with business sector, where investors influence the availability the stock of financial services in the market and in consequence the flow of the companies. In the bottom of the business cycle phase is where



labor force, and specially in extended-household members, could live in a professional, financial and psychological pressure, and weak links between personal increase their relation tension, which influence their decision ability, special in the management of the workforce appraisal when involving extended-household members. All these considerations usually are addressed in the entrepreneurship education programs, which give a better understanding about the relation of the business and economic cycles with the venture. In other way, research reveals that during the economic cycles recession phases enrollment increases, comparing with other phases of the cycle.

Lastly, concerning the family-members and friend influence, even when the companies interviewed were not deeply sensitive to the process of succession or selling the firm, the relation to other members of the extended-household was present among the questions answered by the interviewees. The relation between family-members and friends, and cofounders can be as difficult to describe as the term family, however Distelberg research contributes with above cited definition of family, where in certain conditions friends can be included. Crocetti and Meeus contribution reveals that the relational system of the Italian emerging adults not only considers relationships with their family but also with friends (Crocetti and Meeus, 2014). These findings suggest that friends and family-members might be relevant as a resource in a venture by entrepreneurs and highlight the important of nepotism and cronyism topics. In economics theory, the utility function can also apply here. Business education offer information to understand how to relate between owners and family members and friends, increasing trust and lowering the agency costs that plague these relationships (Lansberg, 2015).

Their actual situation as cofounders, shareholders are framed in family-business studies related with the principal-agency/stewardship problem and nepotism/cronyism fitted in this section. A principal-agency problem that is addressed in this section and supported in the studies used reveals that a shareholder that has the control over the company may influence the executive compensation or decision. This influence may reflect also in benefit of cofounders and their extended-household members that works or not in the company. As Victor Ferreira said, in his venture with his father, the relation son-father can promote decisions that were not the best for the company.

Cofounders may incentive extended-household members to provide privilege focus and to take care of each one in case of need, even if they have to sacrifice the corporation (Schulze et al., 2001). Or, in opposite, cofounders sacrifice the household-members to reduce the risk of agency problem or practice stewardship to differentiate and bring value by commitment. In analogy of Jaskiewicz's two types of nepotism (Jaskiewicz et al., 2013) and considering cronyism among cofounders which are not family-members, I considered reciprocal cronyism related with three conditions: interdependence, extent of exchanges and, eventual, cofounders' agreement. Among cofounders, these conditions can lead also to "generalized social exchange relationships", which are relevant to effective "tacit knowledge management", which can also enhance general company competitive advantage. In opposite, entitlement cronyism happened without concerns of Cofounders' agreement. This can lead to "restricted social exchanges" among cofounders, which can miss synergies among cofounders. Principal-agent theory addresses management decisions that are influenced by the ownership status of the decision makers on the board of directors of the companies. As Jenson mentions, top managers usually manage not

only financial and nonfinancial benefits, but also the capability to exercise authority, dictate strategy, and select investments where the company will invest.

Finally, regarding nepotism and cronyism, in my research I didn't find any reference in entrepreneurship education programs that explicit address nepotism or cronyism aspects. Nepotism or Anti-nepotism concept is usually converged in family-business education programs and enterprise corporations, and it is usually included in some country govern policies, in family-business or large institution. Cronyism is less common in employment policies (Jones and Stout, 2015).

## Conclusion

This study contributes to the understanding of how entrepreneurship education can influence nepotism and cronyism definition. The results presented here are particularly relevant to elements of society considering entrepreneurship education both as a provider or as recipient, to entrepreneurs with family and friend ties in their ventures and to academics researching on the above topics.

The methodology taken in building this paper led to aggregated dimensions of this problem where other factors are also observed: the increase of the knowledge-based economy in Portugal and how different stakeholders are impacting it, the importance of venture capitalist in the entrepreneurship process and the impact of business cycles in the ventures decision making. These factors can strongly affect both the entrepreneurship environment and education offer, so their impact is also considered.

The analysis of the stakeholders in the business and education environment in Portugal revealed multiple stakeholders are fostering entrepreneurship. This results in a higher exposure to not only the concepts and the value of entrepreneurship but also easier access to entrepreneurship education. So not only the number of entrepreneurs has risen in recent years, but also their education level has increased, as their household social capital

This study found that entrepreneurs with entrepreneurship education are better equipped to handling different business cycles and their transitions. Resulting in also having a better capacity to handle household balance. Additionally, it also uncovered that entrepreneurs with entrepreneurship education better plan companies' growth needs and are better equipped to handle governance transitions resulting of changes in the companies' equity, shareholders' assembly. In particular, those resulting from the entrance of investors in the company's equity. It was concluded in this study that such changes can have a negative impact on the entrepreneur and the company itself if not properly handled. Entrepreneurs with education can be better fit to handle the transitions.

Entrepreneurship education also has an indirect impact in nepotism and cronyism on cofounders' relationship. This study supports that it contributes to entrepreneurs have more awareness about nepotism among cofounders, and also employees, family-members and cronyism among cofounders friends. With proper education, entrepreneurs can start earlier to understand the implication to well select the partners for the venture to address competences needed for the company, in the present and in the future. This can avoid future inefficiencies, lack of capability of the company or governance constrains.

The observed impact of the entrepreneurship education led to the creation of an Nepotism/cronyism entrepreneurship Model (Annex 2) which aims to identify the relations between the different aggregated dimensions and the ventures outcomes.

In conclusion, I consider that entrepreneurship education as a positive impact on the governance and practices of new ventures, and can be a driver to change indirectly the definition of nepotism and cronyism among Cofounders. However, support in this research, I'm convict that can be add-value to include explicit the nepotism and cronyism into the entrepreneurship education programs. Entrepreneurship educated entrepreneurs tend to reflect employment policies that take in consideration nepotism and cronyism. And tend to define methodologies and processes with the same goals. Additionally, entrepreneurship education also has positive impact in other aspects of the lifecycle of a venture, like managing company transitions and business cycles, and the entrepreneur household balance.

## **Future research**

The findings open a number of opportunities for further research on the implication of the entrepreneurship education over the entrepreneurial extended-household capital concept, where the nepotism and cronyism definitions are key factors. During the construction of this paper, challenges emerged to articulate the relation between nepotism, cronyism, entrepreneurship education, venture capitalists and business cycles. A further in-depth analysis of the impact of entrepreneurship education in each of these individual factors would help to better understand the dynamics of the problem studied in this paper, and enrich the knowledge of the entrepreneurship in the current landscape where entrepreneurship education is increasingly more available.

This paper suggests an Nepotism/cronyism entrepreneurship Model (Annex 2), further research in different perspective can use the same model and explore other possible extensions of this study.

In one hand, one interesting aspect for future research that emerged from this paper is the comparison of the family-based companies' employee practices – namely giving a higher importance to individuals over some company goals – to the latest trends in the best performing companies of highly valuating individuals over short term goals. In the other hand, another interesting synergy for future research that emerged from this paper is the contribution that nepotism understanding, that family-business research has, can be extended by, complementary research, in the into the entrepreneurship ecosystem. This can be by the contribution to extend the understand of nepotism and cronyism among entrepreneurs, and to contribute to complement new entrepreneurship education programs with nepotism and cronyism.

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## Annex 1

### Data Structure – Aggregate Dimensions

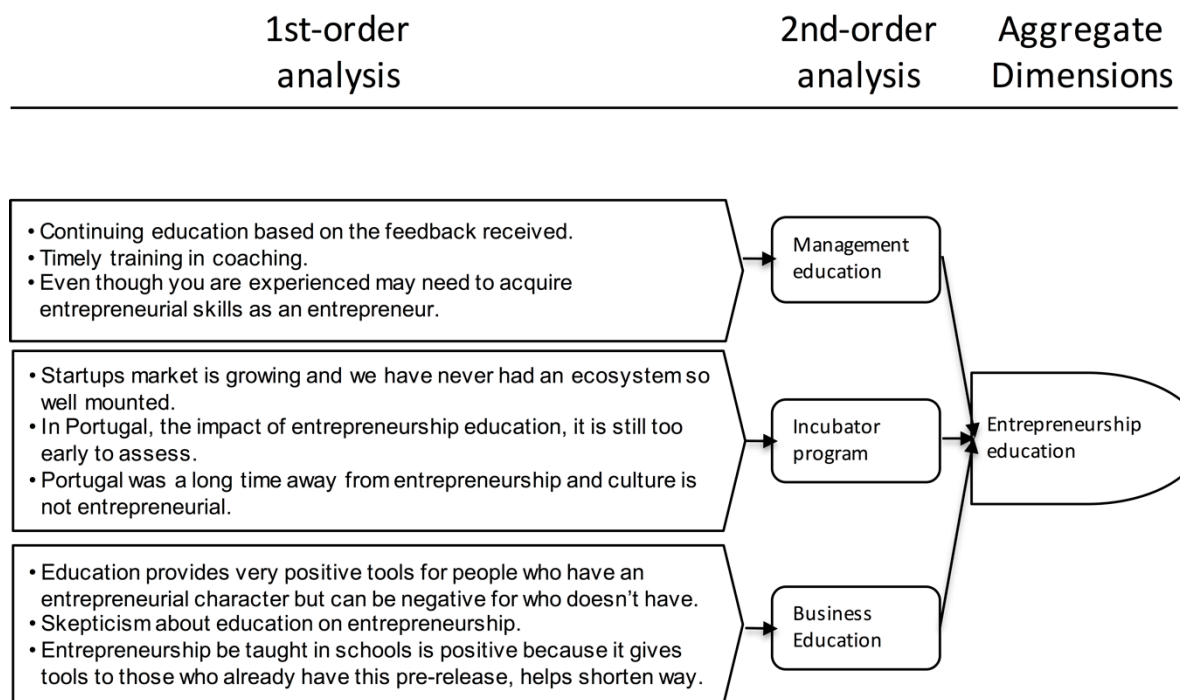


Figure 1 - Entrepreneurship education dimension

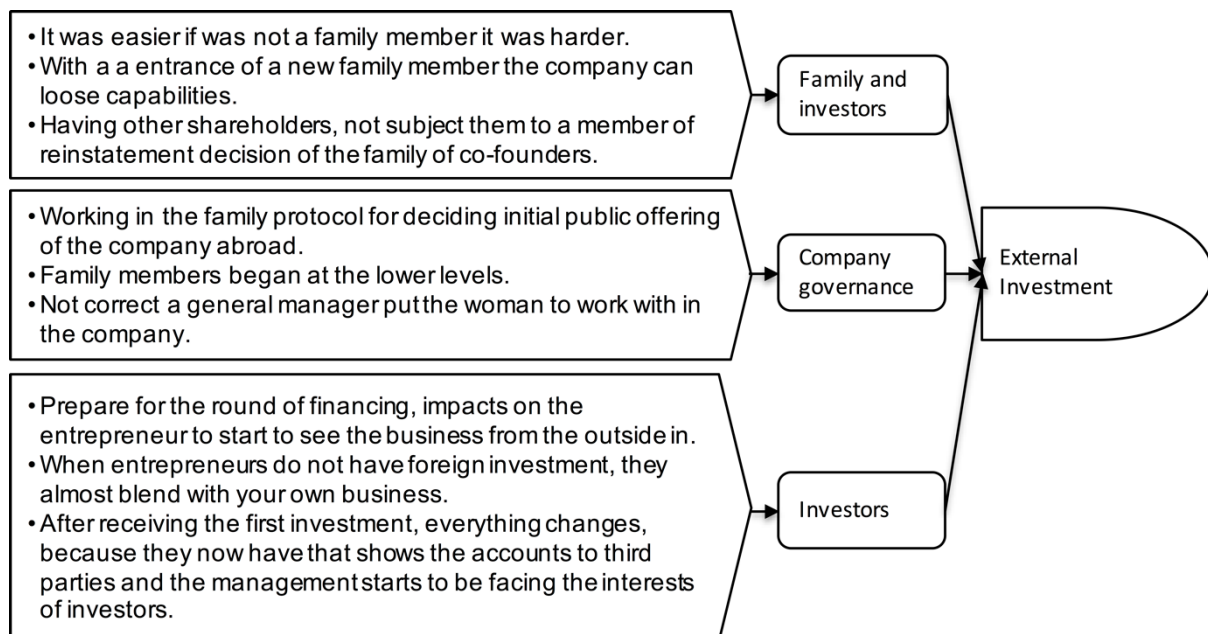


Figure 2 - External investment dimension



## Annex 1 – (cont.)

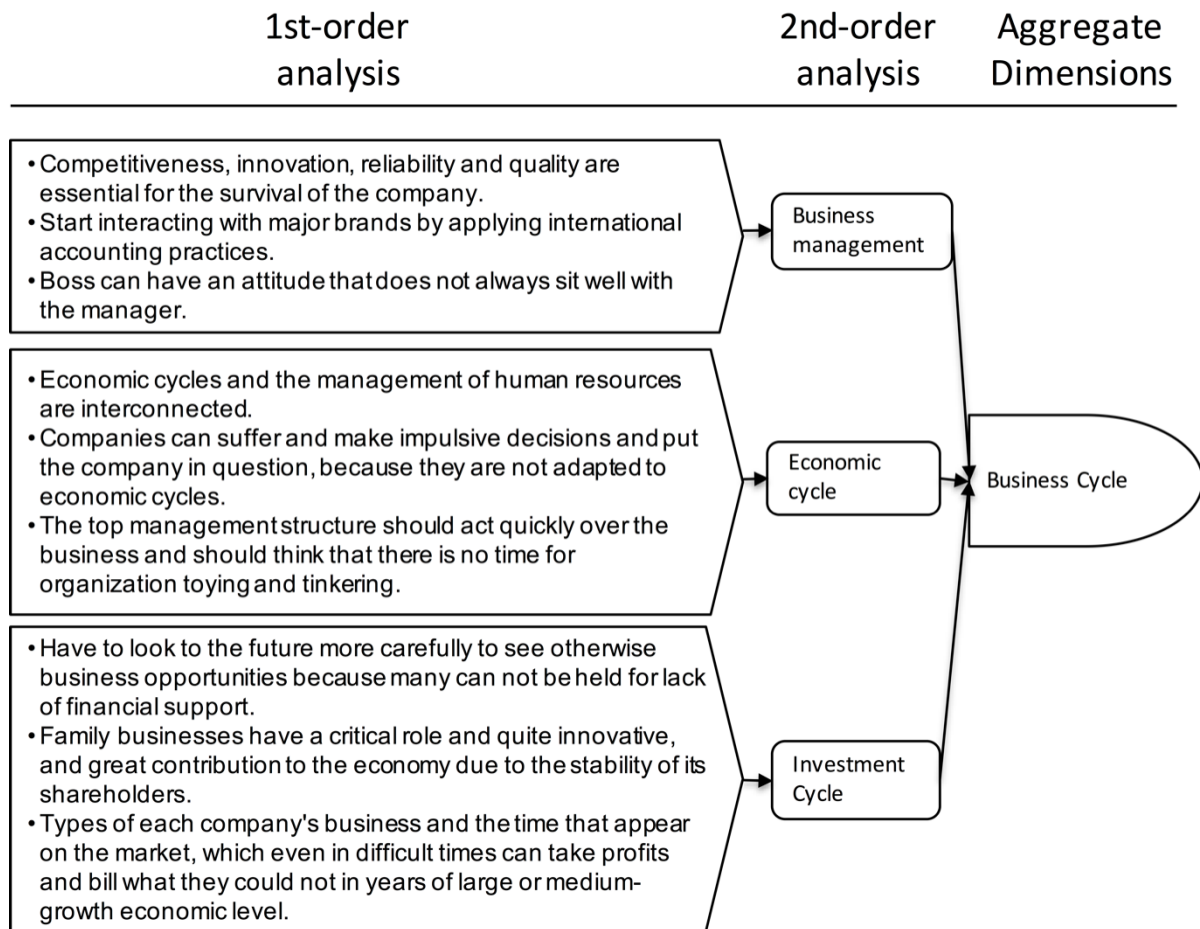


Figure 3 - Business cycle dimension

## Annex 1 – (cont.)

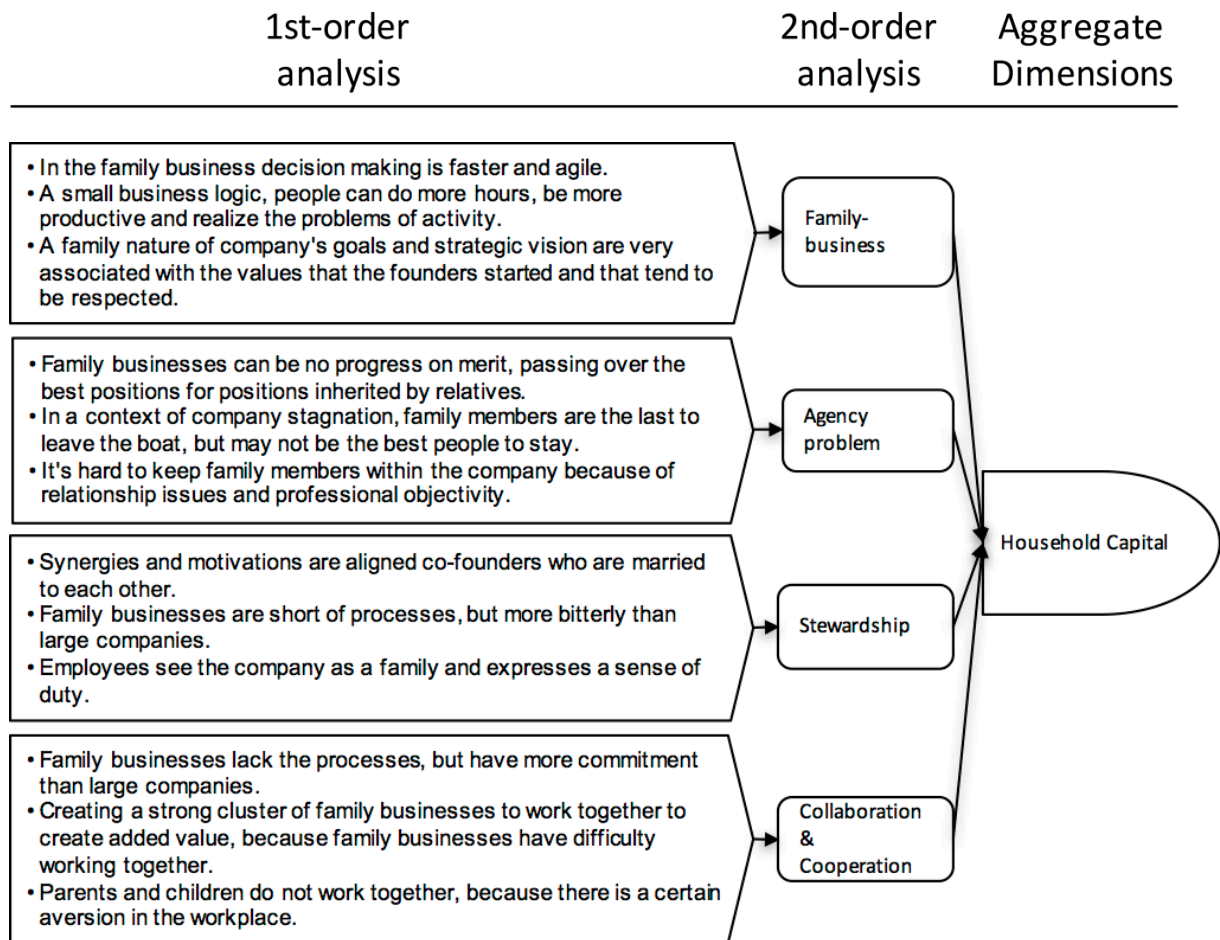


Figure 4 – Household Capital dimension

## Annex 2

### Entrepreneurship education model

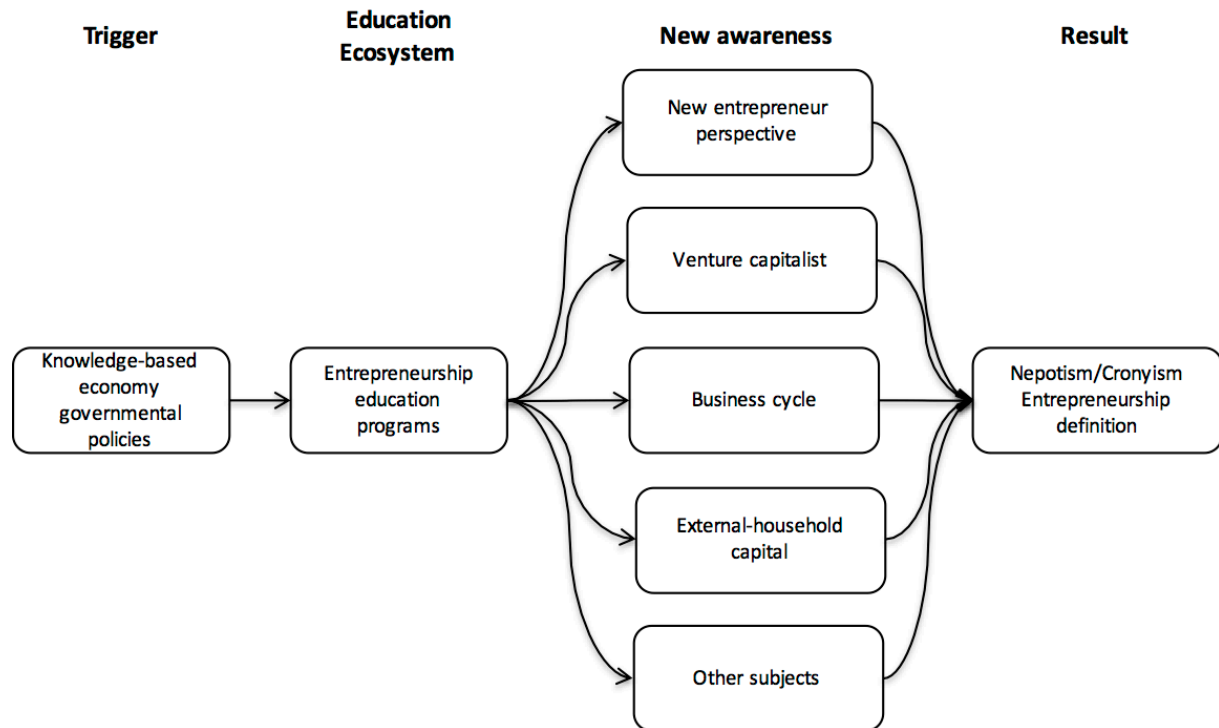


Figure 5 - Nepotism/cronyism entrepreneurship model

## Annex 3

Expert interviewees table

#	Interviewee	Position	Company
F1	Carlos José	Cofounder; CEO; Bachelor degree degree	Conceito
F2	Nuno Martins	Manager; Bachelor degree	
F3	Álvaro Gomes	Manager; Bachelor degree	
F4	Vanessa José	Family-member; Manager; Bachelor degree	
1	Jorge Lourenço	Cofounder; CEO; (Bachelor degree)	First Rule
2	Artur Pegas	Cofounder; General Director; Master degree	Papa-Léguas
3	Ricardo Mascarenhas	Family-member founder; Master degree	Climax
4	José Henriques	Cofounder; CEO; Bachelor degree	MagnumCap
5	Ricardo Mendes	Cofounder; CMO; Master degree	Tekever
6	Sérgio Teixeira	Cofounder; COO; PhD degree	Baseform
7	Victor Ferreira	Cofounder; CEO; Bachelor degree	ControlGo
8	Theo Fernandes	Cofounder, General director; Master degree	Chimp
9	João Duque Vieira	Cofounder, CEO; Master degree; MBA	Nextway Group
10	João Ferro Rodrigues	Cofounder, CEO; Bachelor degree; MBA	Sabe Online
11	Miguel Henriques	President; Master degree	Federação Nacional de Business Angel
12	Miguel Barbosa	Financial Senior Analyst; Master degree	Portugal Ventures

Table 1 - Expertise interviewees table

## **Annex 4**

### **Interview structure**

#### **The open-ended interview protocol**

An open-end interview protocol was used in the research based on the list of main question. Considering the major goals of the study and the profile of the interviewees, the expert interviews was conducted in a semi-structured to give flexible to leverage the potential of the specific knowledge of each interviewees, which as its own expertise and experience.

#### **Semi-structured expert interviews questionnaire for entrepreneurs**

What can you tell me about your experience with family business corporation, personal and professional?

In the early stage of the company, how do you describe what were your considerations of the integration of cofounders' family-member into your business?

How can you describe me the HR management process that involves cofounders' family-members?

Can you describe any conflict episode or management hard moment issue that involved a cofounder family-member?

What can you tell about your perspective concerning your company and family business?

What is your opinion regarding actual scenario related family business companies in Portugal?

What is your opinion regarding Portuguese family business Association?

What concerns do you have on cofounders regarding family cofounder's integration in the business structure?

What you can you tell me about your Exit Plan regarding cofounder succession?

What you can tell me about Economic cycle and human resource management?

#### **Semi-structured expert interviews questionnaire for investors**

What you can say about the concept of a new venture and its entrepreneur?

In your experience, how can you describe about the skills of the new entrepreneur and their execution plan?

What you can say about the organization culture and the personality of the founder?

And what is your opinion about their emotional attachment?

What is the impacts that you figure out when startups face when investors went in?

How can you describe the impact of the Economic cycle in the venture?